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EFFICIENT CREDIT MANAGEMENT

By F. H. McADOW

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Efficient Credit Management

By

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Former President National Association of Credit Men

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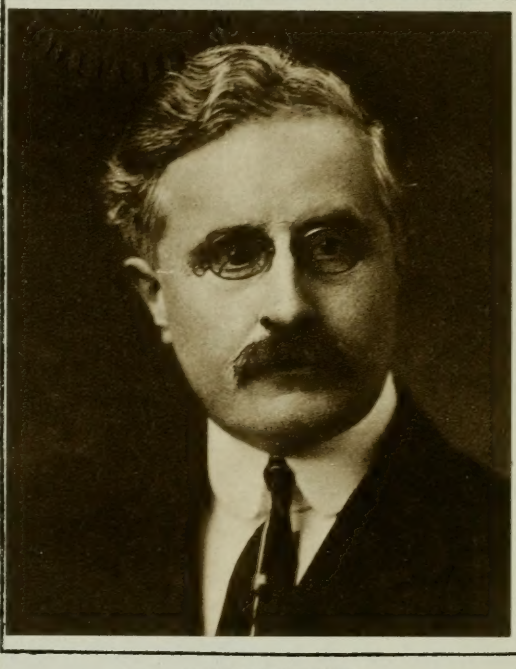

F. H. McADOW

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Born on a farm in Adams County, Ohio, Mr. McAdow received his early education in Ohio and Missouri, and began his business career as bookkeeper in the Chicago branch of Charles Scribner's Sons. Two years later be became assistant superintendent and cost accountant for Racine (Wis.) Hardware Manufacturing Company and later became one of the founders of Staver Carriage Company of Chicago, being secretary and treasurer of that company until the time of its liquidation.

At the present time Mr. McAdow is directing the credit department of Skinner Brothers, Chicago.

Mr. McAdow has been closely identified with the work of the National Association of Credit Men, having served with honor as director and president of the Chicago local association, and as director, vice-president and for two terms president of the National Association. He is a lecturer on credits in the Central Y. M. C. A. of Chicago, and has written extensively on various phases of credit work.

Mr. McAdow's rich experience in the field of credits and his exceptional familiarity with the trend of credit educational movements thruout the United States qualifies him in a special manner for discussing the subject of "Efficient Credit Management.'

NOTE:—This Lecture, which is based upon the author's ripe experience in his special field, should be read in the light of the Modern Business Text, and should be studied as an authoritative message from the field of present-day business activity.

Efficient Credit Management

By

F. H. McADOW

If I were asked to give a definition of the word efficiency as applied to business, I would say that it describes the ability to do not only more but better work; to perform more intelligently and with greater intensity of application; to possess a clear vision and an open mind, as well as a keen judgment developed by careful training. The efficient business man, when necessary, can cut loose from old systems and get out of the rut of previous methods and experience.

To the credit manager whose desk is habitually laden with unfinished business, the subject of efficiency is particularly pertinent. In the nature of his work, important questions arise unexpectedly that not only require his best thought and judgment, but that usually press for immediate decision.

Under such circumstances, it is important that the credit manager be free to give all his time and thought to the matter in hand. It may be the case of an important account suddenly reaching the limit of safety; it may be a threatened failure requiring a conference with other creditors, or it may be a collection which is getting beyond the reach of ordinary collection methods. On the promptness and skill

with which such special questions are handled, successful credit management usually hinges.

The credit department of a large manufacturing concern or a great dry goods house which distributes sales all over the country is necessarily equipped with a comprehensive system and manned by a large number of employes each handling a special part of the work. Such a department will encounter many problems that cannot very well arise in a small jobbing house whose entire credit organization consists of a credit man and one stenographer. Nevertheless, the work of the smaller house may entail just as difficult problems as that of the larger concern and may even require a relatively greater degree of resourcefulness, since all responsibility is centered in just one person.

In the School of Experience

Whatever may be true of poets, credit men are "made," not "born" to the work. Before he can become skilful in his work, the credit man must be trained, and it is an undeniable fact that in many instances the house that employs him is made to pay for his training and experience by way of errors made and losses incurred.

Every credit man of experience can probably recall instances that do not carry the most pleasing memories, even tho they make him realize that he has made progress with the passing years. One experience of my amateur days is illuminating in this connection.

We were passing thru a period of business depres-

sion during which sales fell to a point where it was difficult to make expenses. One day we received a letter from a citizen of a small town in Arkansas who applied for a local agency. He said he owned a farm adjoining the town, that he had a large acquaintance, and that while he had never sold buggies, he felt sure he could dispose of a carload.

Ordinarily, such a request would have been given no consideration, but at that particular time the prospect of a carload order was no small temptation. The references which he presented were consulted and gave him a good report as to character. They also confirmed his claim as to ownership of a farm. The credit man persuaded himself that the risk was safe, and the carload was accordingly shipped. When the account matured, the farmer-agent reported that business had been dull and that he must have more time in which to pay for the buggies. This did not sound just right and a collector was sent to the town to learn the situation and, if possible, get the money.

The farmer admitted that he was not a great success as a seller of buggies. As a matter of fact, he "laid down" on the case. The most striking fact for the credit man, however, was the farmer's statement that he had not really expected to get the credit when he wrote for it, and that he could scarcely believe his eyes when he found that we had actually shipped him a carload of buggies. He had stored them in his hen house, his barn, his corn crib, and wherever he could find space for one in a shed or

outbuilding. He begged our representative to take them away, saying that he couldn't sell them. The collector, after considering whether he should sue the account and take the farm, decided that the buggies were, after all, the more desirable property. So he shipped them back to the factory. The farmer, on his part, was delighted at the release, and the credit man was thoroly cured of any tendency to make buggy dealers out of husbandmen.

A Raider Run Down

The credit manager at times finds it in the line of duty to prosecute an offender who attempts a swindle. Good business policy sometimes demands that an example be made of such an individual for the benfit of the community. One Saturday afternoon in Chicago a Mr. Parton bought a carriage and asked for delivery at once, saying that payment would be made on delivery. The teamster who delivered the carriage brought back a check dated the Monday following. When this check was deposited the bank returned it marked "not sufficient funds." On inquiry it was learned that Mr. Parton never had more than a few dollars on deposit in the bank and that frequently checks were presented and dishonored for that reason. It was also learned that the bank had requested the depositor to withdraw his account. When asked for an explanation, Parton paid no attention; but when it was suggested to him that this was a rather serious matter, he replied by calling attention to the fact that the check was post-

dated, thereby giving notice that he did not represent that he had funds in the bank at the time when the check was given. This rapidly brought an understanding of the situation.

Our attorney took the view that inasmuch as the check had been given after banking hours on Saturday, the next banking day (Monday) had already begun in a legal sense, and that the check therefore *de facto*, was not postdated. On that theory we proceeded. An indictment was secured and Parton was arrested. At the trial more than fifty small dealers appeared in Court and begged to be allowed to testify against him. They had all been victims of his false pretenses. The case dragged nearly a year, but finally Parton was sentenced and made to serve his time. The case is frequently referred to among Illinois decisions as an authority. A commercial Jesse James was put out of business.

A "Joker" in the Contract

There are times when a credit manager may be called upon to do his part in an altruistic effort to reform conditions in trade. A few years ago a well-known Western collection agency allowed its name to be used in an undertaking separate from its regular business. This new organization with a different management devised a scheme for securing contracts from business houses to collect old past-due accounts that had gone into profit and loss.

The plan required that the accounts turned over

to the agency be accompanied by a check for one-tenth or one-fifth of their total amount. The agency pledged itself to collect on these accounts a sum at least equal to the amount of the check given, or, failing this, to repay the shortage out of its own funds. On the face of it, the plan was very attractive, as there seemed to be no possibility of a loss. In practice, however, it worked out in the following manner:

The agency would make one attempt at collecting the account. If that brought results, the money was turned over to the creditor house as per agreement. But if nothing was collected, nothing was said about it. When later the credit man began to inquire of this agency when his money would be paid back, his attention was called to the "joker" in the contract which in fine print stated that there was no limit to the time in which the agency might continue its efforts to collect. Accordingly, there was no fixed date at which it could be required to refund. Further, it was discovered that in the contract the house had agreed to place with the agency all its current accounts that required to be collected thru an attorney. This discovery always "jolted" the credit man into temporary acquiescence, for he recognized at once that this was a bad bargain if not a deliberate fraud "put over" on him.

Our house being one of the early victims of this scheme, we consulted our attorney on the subject, and as the result of a letter written by him, a representative of the agency called on us and counted

out in currency the amount we had paid. Needless to say, we cheerfully surrendered the contract.

As time went on, however, and as the number of the agency's victims increased, the latter began to compare notes. The associations of credit men, thru their committees and boards of directors, also began to investigate the matter on behalf of their members. A fund was raised for investigating fraud of this nature, and an able attorney of the fighting type was engaged. This lawyer secured evidence that the agency had used the mails in the perpetration of a fraud. He went to the city in which the agency had its principal office, got the matter before the Federal Grand Jury and secured indictments leading to the arrest of the men who had been most active in securing contracts. These were subsequently convicted.

The energetic prosecution of this fraud by the credit men undoubtedly resulted in breaking up a dangerous and far reaching conspiracy against business houses. Soliciting for such contracts has not been heard of since. The remedy was effective.

Contending for a Principle

In the conduct of a modern credit department situations frequently arise in which the manager feels that his house is being imposed upon and perhaps made the victim of a fraud, yet a fraud that cannot easily be proved or an imposition that cannot be resisted without considerable outlay of time and money. Many houses in such cases decline to

"throw good money after bad." If the standard of credit management is to be elevated, however, and if the commercial atmosphere is to be purified, there will, no doubt, be many occasions when the house can better afford to make the fight for the sake of its deterrent influence than to permit the continuance of evil practices.

In one such instance, our house spent considerable money in establishing what we considered an important principle. One of our salesmen in Iowa had sold a buggy to a liveryman at a price that included the usual dealer's commission. He thereupon interviewed a local firm, told them of his sale to the liveryman and offered to turn over the commission if the firm would give him an order for a certain number of buggies. The order was promptly given him. Soon after he learned in some way that the financial responsibility of the firm was doubtful. Believing that under the circumstances the order would not be accepted even if he sent it in, the salesman withheld or destroyed it, and took an order from another firm in the town under the same promise of commission on the buggy just sold. This order was sent in and was accepted.

After the accepted order had been shipped, but before the account matured, we were informed that the first firm had commenced suit against us for the amount of the promised commission, and that it had, in fact, garnisheed the second firm which still owed us for the buggies we had shipped them.

Then for the first time we learned of the order

which had not been sent in. While the salesman was subject to criticism for the manner in which he had handled the matter, we were unwilling to have the precedent established by a court decision that we were bound by any act of a salesman in excess of his authority, or of which we had no knowledge and to which we had not consented, especially as our order blanks carried a stipulation that no order was binding on us until accepted at our own office.

We, therefore, defended the suit and obtained a decision supporting our contention; but the case had to be taken to the Supreme Court of the state before it was won. Had the complaining firm taken the matter up with us, we should probably have paid them something inasmuch as the salesman had failed to return their unaccepted contract with proper explanations. The filing of a suit, however, was an "overt act" and hostilities naturally resulted at once.

An Old Trick Played Once too Often

Efficient credit management requires that time and energy as well as money be spent when necessary in opposing fraud and in reforming unsound business practices. Without such efforts, our methods will remain crude as compared with the standards of the old world and our business ethics will be of a low grade.

A few years ago there was established in Chicago a concern known as the Blank Bargain House. After a short time local credit men began to receive inquiries about this firm from outside houses. The

firm was located in a section of the city where but scant opportunity existed for conducting a retail business. Very little could be learned about the firm. The Chicago credit men began to take turns in doing detective work, for inquiries were coming more rapidly and were beginning to have a tone of complaint.

As a result of investigation it was ascertained that goods in large quantities were being received by the firm and immediately reshipped to other points—in some instances as far west as Seattle, Washington. Frequently these reshipments took place from the depot, without the goods being brought to the warehouse or the original packages being disturbed.

Presently the identity of the individuals who appeared to be active in the management of the business was learned, and in a short time facts justifying their arrest were in the hands of the credit men's committee. When the men were taken into custody, a woman appeared with sufficient money to provide a cash bail of many thousand dollars. Had bail been accepted, the criminals would no doubt have disappeared.

The supply houses from which the inquiries had been received were promptly notified, and when their representatives arrived on the scene an astounding condition of things was brought to light. The amount of liability was startling, considering the short period of time in which the operations had been carried on. As a result of the evidence furnished,

and by the liberal use of the telegraph, delivery was stopped on a considerable amount of the goods which had been reshipped; nevertheless large losses were suffered by many of the creditors.

Credit in this case had been obtained by means of the old ruse of depositing a considerable amount of cash with a bank and thereupon using that bank as reference. This scheme worked well whenever the credit men did not insist upon knowing the antecedents of the individuals composing the firm. As soon as goods had begun to come in satisfactory quantities, the cash deposit had been withdrawn from the bank. As the result of the trial, three of the offenders were sentenced for terms that gave the business world a respite from the operations of that particular band of predatory conspirators.

Advantage of the Conditional Sales Contract

In some lines of trade a form of order blank known as a conditional sales contract is used to advantage, being in fact, an effective safeguard to credits. In the case of one firm during a period of years many thousand dollars worth of goods were taken back in insolvency cases. Without this form of sales contract, an almost total loss would have resulted in each case. This contract stipulates that the goods or merchandise purchased under it shall remain the property of the seller until fully paid for, and that the proceeds of any sales of the goods, so far as they can be identified, shall also be the property of the

seller. If note settlement is taken under such a contract, it contains a clause that says:

"This note is given and accepted as an evidence of indebtedness and does not alter the terms of the agreement under which the goods for which it is given were shipped to the undersigned."

This clause makes the note a part of the original agreement instead of constituting it a new contract.

In case of insolvency, the court has held that under such a contract the assignee took no better title than was held by the assigning debtor; that is, the former merely stepped into the latter's place. Until the bankruptcy law was amended in 1910, this same ruling applied under the operation of that law. That amendment provided that the trustee in bankruptcy represented all the creditors instead of the bankrupt, and that he took the same title and rights as a judgment creditor. The conditional sales contract does not thereby lose all its value, however, since the goods on hand can be taken back by the seller before a petition in bankruptcy has been filed. I think courts everywhere have held that such a contract is good as between seller and purchaser when no other rights have intervened.

In some states such contracts must be recorded before they are enforceable or before they have a standing in court. The efficient credit man should know which states have this statutory requirement. In Iowa no document can be recorded unless it is under seal or acknowledged. In that state, when it is necessary to file such a contract, the salesman goes

before a notary and acknowledges that he has executed it in behalf of his house. This qualifies it for recording.

A Complicated Case

One experience with a contract of this nature made a lasting impression because of the complications that arose in connection with it.

We had sold a dealer in an Illinois town for many years. His health failed suddenly, incapacitating him for business and making it necessary for his family to close the business. Under the contract we took back nearly three thousand dollars' worth of our goods, and they were delivered to us by the dealer's legal representative. While our men were loading the goods into cars for reshipping to the factory and while these goods were both constructively and actually in our possession, the sheriff appeared and levied on the goods under an attachment which had been sworn out by a local bank. The levy was made upon the theory that the goods belonged to the dealer and were in his possession, because some of them were still in his store and warehouse, not yet having been taken out for loading on the cars. The writ of attachment had been sworn out against the dealer and not against us.

We promptly executed a replevin bond, took the goods from the sheriff under a writ of replevin and shipped them to the factory. About thirty days later a petition in bankruptcy was filed against the dealer who shortly after died. We thereupon filed

our claim in the bankruptcy proceedings for only that part of our account which remained after crediting the goods taken back. The bank filed its claim in bankruptcy for the entire amount of the claim, making no allowance for the goods claimed under the execution or writ of attachment. It participated in dividends declared on the full amount of its account, which seemingly could be construed as a waiver or an abandonment of its claim against the goods under attachment.

The trustee in bankruptcy applied to the court for an order substituting himself for the bank in the claim against the dealer or against the goods taken under the writ of attachment, the purpose of this procedure being to bring the goods into the bankrupt estate for the benefit of all creditors. Our attorney resisted this application on the ground that no such action was authorized by the provisions of the bankruptcy law and that it was not a proper remedy. The court upheld our contention and denied the application for the order.

It developed afterward that the proper proceeding would have been for the trustee to apply for an order subrogating the claim of the bank for the benefit of all creditors (putting them in place of the bank), and thus continuing a lien against the disputed goods on behalf of the estate—a technical distinction perhaps, but in accordance with the statute. This incident illustrates the value of having a lawyer who fully understands the theory as well as the law of his case. We had the better lawyer. It also suggests

the value of a careful study of the bankruptcy law by credit men.

In due time the bankruptcy case was closed and the trustee on presenting his final report was discharged by the court. Eight years after the first proceeding, the attachment proceedings of the sheriff against ourselves came to trial. It had been delayed by the bankruptcy proceedings and by what is sometimes designated "the law's delay." At the trial we submitted proof as to our contentions:

1. That we had a right to take the goods under our contract.

2. That we were actually and constructively in possession and that the dealer against whom the bank had sworn out the writ of attachment never had title under this form of contract.

3. That the bankruptcy proceedings intervening, had debarred the bank from further prosecution of its claim, under decisions of the United States Supreme Court construing the law in similar cases.

The judge of the city court in which the case was tried (without a jury), held the matter under advisement about six months; then decided squarely against us on all points. We appealed to the Appellate Court. That Court reversed the lower court and gave us the decision on points one and two of our argument in a terse, brief, clear-cut opinion. To our disappointment, however, the court did not rule on the bankruptcy contention (point 3), saying the case was won without that.

The attorneys for the bank applied to the State

Supreme Court for a hearing under a writ of Certiorari. The Supreme Court denied the writ and the litigation closed after a contest of nearly nine years.

This case, in addition to illustrating the value of a conditional sales contract, shows what may at times be involved in credit management. However troublesome and expensive, litigation is sometimes unavoidable, and the efficient credit manager realizes that if a fight is forced upon him, it is worth his while to fight to win.

The Credit Man His Own Lawyer?

The foregoing case brings up a question that frequently arises in credit management, namely, at what point the services of an attorney are called for. It is said that an excited citizen once rushed into the office of a prominent Chicago attorney, exclaiming that he needed the services of a lawyer at once. He was asked to state his case and did so. Soon the attorney interrupted him saying: "You are mistaken about needing an attorney. What you want is a fast railroad train!"

It is sometimes said by writers on the subject of credit that every credit man should possess a certain amount of legal knowledge—that he should, for example, know at least the rudiments of commercial law, especially that part which deals with sales contracts, exemptions, married women as sureties or indorsers, and other matters of like nature. In many respects this is at least good theory. A credit man ought to know enough of the law to keep himself

out of trouble in dealing with any of these things; but my observation is that despite such knowledge, the credit man sometimes breaks thru unexpectedly when he thinks the ice is perfectly sound. Then he wishes he had consulted an attorney at the start.

On one occasion we made a contract with a house in South Dakota to sell our buggies in a considerable territory. This concern—a corporation—made ploughs and wagons. It owned a factory clear of incumbrance, valued at over $100,000. Because our account would be of some size and because the general merchandise indebtedness of this house was already about as large as it should be, we took the personal guaranty of the president and secretary of the company on our contract. At the end of the year this house had sold a lot of our buggies and owed us several thousand dollars. Then, in order to obtain working capital for the coming season, the company placed a deed of trust on its plant to secure an issue of bonds for $60,000. The officers of the company who personally had guaranteed our contract, proposed that we take $7,000 worth of these bonds to secure our account. We looked upon the bonds as the better security, agreed to the proposition and received the bonds.

As was subsequently discovered, almost all the bonds were given to secure creditors in the same way, hence the company failed to secure the needed new working capital; and its credit became impaired with the result that in about six months it was forced into bankruptcy.

When it was seen that the company could not resume operations, some of the bondholders began foreclosure proceedings. The attorney for the trustee resisted the foreclosure on the ground that the bond issues having become invalidated, the bonds were null and void. The reason alleged was that under the laws of South Dakota when a manufacturing concern or other corporation organized for profit mortgaged or bonded its property, the money so obtained must remain in the business as working capital; and that if any bonds so issued were given to secure indebtedness existing prior to the bond issue, all bonds so issued should immediately become null and void.

The Dakota trial court upheld this law. An appeal was taken to the United States Circuit Court which sustained the decision of the lower court. As the matter now stands, our security is worthless, for the case will probably not be appealed to a higher court and might not be won on such appeal if it were taken. We are not quite certain now whether we stand as secured or unsecured creditors; that is, whether, when the factory is sold, as it probably will be in the near future, we can participate in the proceeds to the full extent of our claim. We are quite certain, however, that at an earlier point in this case we should have consulted a lawyer familiar with the laws of South Dakota.

Between the Lines of the Property Statement

In recent years certain credit men of experience evince a disposition to discount the value of property

statements. In a recent address a prominent Chicago credit man said: "I do not have much use for property statements." If taken literally, this view has not much to commend it and is not likely to be generally accepted. A signed statement is certainly a good starting point, if nothing more, in the attempt to determine the resources of an applicant for credit. Another credit man when asked for an expression of his opinion with regard to property statements replied with emphasis: "Tell them to beware of property statements!" A little questioning, however, brought out the fact that it was not against the property statement itself that this credit man declared himself, but rather against the mistakes commonly made in analyzing them and the failure properly to verify them. By way of illustrating his meaning, this credit man exhibited two statements made to his firm, each of which he believed had saved the firm from a loss.

The first statement was in the usual form, but among the liabilities appeared the item "owing for merchandise, $6,000." This caught the credit man's eye. On referring to the ledger he found that this merchant was at that time owing the house to which he made the statement $5,985. The credit man had personal knowledge of other merchandise indebtedness amounting to several thousand dollars more. Obviously, the statement was knowingly false, and the credit man immediately turned down the merchant's order for a large amount of goods.

The second statement appeared all right, showing

a proper excess of assets over liabilities, but in the liabilities column was the item "owing the bank $8,000." The credit man began weighing this item in his mind. Among the information data which he had obtained was a letter from the bank to which the merchant owed the $8,000. This letter merely stated in stereotyped language that the firm had been in business for a number of years and was supposed to be good for its contracts. After some reflection, the credit man wrote the bank a letter in which he referred to the $8,000 owing by his customer and asked whether the bank's knowledge with regard to the standing and resources of the borrower was such that it intended to continue that line of banking credit. To this inquiry the bank made no reply. The bank's silence could be interpreted in only one way: It was about to call its loan for payment and get out from under. So strong was this conviction that the credit man refused the order under consideration and closed the account.

In both these cases it is plain that the property statement had been the means of saving the house from a loss, since the information on which the credit man acted could not readily have been obtained from any other source. Nevertheless, it must be admitted that unless the statements had been properly analyzed, they might have constituted a source of danger instead of being an element of safety.

The credit man who condemns property statements in Illinois has perhaps some reason for his opinion, since under the court decisions of that state,

a man may make a false statement and go free from any penalty therefor if he testifies in court that he did not intend to misrepresent or that he had forgotten some item of liability.

The first experience of our house with such a statement is set forth in the Illinois case of Staver *vs.* B. and K. The partners gave us a good-looking statement and secured credit for a carload of buggies, but before the account matured, they made an assignment and never paid for their purchase. In the statement of liabilities in the assignment proceedings appeared a judgment note for $3,000, in favor of the father of one of the partners. In fact it was the attachment of their property under this note that precipitated the assignment. We carried this case to the Illinois Supreme Court, but lost on the testimony of the defendant that the omission of the $3,000 judgment note from the statement submitted to us was due to a mistake.

A new false statement law now before the legislature will, if enacted, wonderfully improve credit conditions in Illinois.

A Plausible Customer

It is an accepted principle of efficient credit management that a credit man should not make two losses with the same person. If he does, he comes under the condemnation of the man who gets bitten twice by the same dog.

Once a man who introduced himself as Mr. Cahn

of one of the river towns of Iowa came to our salesroom and bought a phaeton. He had not enough money with him to pay the entire purchase price, but could pay $100 in cash and would send draft for the balance as soon as he got home. Reference to mercantile agency rating books showed Mr. Cahn of that town to be rated $75,000 to $125,000 with highest grade of credit. The sale was promptly approved, the money was paid, and the phaeton was shipped. When, however, after a few days, the promised draft had not arrived, a statement of account for the balance was mailed to Mr. Cahn. He promptly mailed it back with a declaration that he had bought nothing of us, had received no phaeton from us, and consequently owed us nothing.

The situation now seemed plain and we started after the pseudo Mr. Cahn, determined to run him down if possible. We traced him and the phaeton as far as Helena, Arkansas, but there the trail was lost and both he and the phaeton completely disappeared from view.

About twelve years later a Mr. Schwartz of Schwartz Brothers, dealers in a small Texas town, called at our factory to buy a carload of buggies. The salesmen were busy and it so happened that I came to wait on the customer. Mr. Schwartz was prompt and businesslike. He looked over the buggies, asked a few questions, obtained prices, then said: "Put in four of this, three of that, six of this," and so on, so that in a few minutes an order for an entire carload was written up. When the order

was placed before Mr. Schwartz for his signature, he said: "No, I am not in a position to execute this order now. I must first submit it to my brother. I will mail it to him today with explanations, and as soon as I get it back with his confirmation, I will call again and finish up the deal."

This was agreed to, and Mr. Schwartz took the order and went away. During the next few days I was obliged to be out of town, but on my return the president of our house informed me of a misfortune that had befallen Mr. Schwartz during my absence. In coming out of a theatre one evening he was robbed of his wallet, money, papers, and everything. There was nothing left to him by which he could furnish identification. "I felt sorry for him in his predicament," the president said, "and I cashed his draft on his firm for $40.00."

"Well," I said, "we got off easy. I had my suspicions from the start. He bought too easily and too quickly, but I couldn't figure out what his game was. Now it's plain. We lose. Moreover, I am now certain that Mr. Cahn of twelve years ago and the present Mr. Schwartz are the same person. I felt certain that I had met Mr. Schwartz before but I could not remember under what circumstances. Now I know."

Guarding the Good-Will

In almost every business there is an asset called "good-will." Tho somewhat intangible, this asset will be found located in the ledger: It is the names

of the "customers on the books." It follows therefore that the credit man is, to a considerable extent, the custodian of the good-will of his house. The responsibility is not his entirely, for the sales department also has a part in holding the customer. But the credit man who strives for efficiency in his department must always keep this fact in mind. If thru tactlessness or error of judgment he loses one customer, a part of the good-will of his house is thereby also lost. If the credit man is in doubt with regard to a certain letter that he has written, it is not a bad plan to hold it over till the next day in order that he may judge with a fresh mind whether anything injudicious appears therein.

At one time we had a customer in an Illinois town —Pepper Brothers. They were inclined to be contentious, and at times they were "plain spoken people" to an exasperating degree. On one occasion they wrote us a letter making some complaint in forceful and irritating language. In answering the letter I thought I would ease up the situation by writing in a jesting manner, and started off by saying "Your somewhat peppery letter received." As we heard nothing further from the firm, we assumed that the complaint had been dropped. Later in the season, however, when our salesman called on them, we learned with surprise that the pun on their name contained in my letter had deeply wounded their pride. It took the salesman two days to thaw out the coldness that had come over our customers, and even at that they never fully forgave us.

Watching the Little Things

One feature of credit management is the constant call for close observation of small and apparently unrelated things. But these often prove to be the straw that shows which way the wind blows. A chance remark, a trivial act, a small slip-up may to the trained mind of the credit manager prove a warning signal if not an actual revelation of a bad state of affairs. That is why some credit men would rather base their judgment upon a ten-minute interview with the credit seeker than upon any amount of credit ratings and agency reports.

I have observed that the successful dealer—therefore the safe credit risk—is pleasant and easy going. He is not easily peeved or perturbed. He is not contentious or fussy about details, does not complain that he is being neglected or given unfair treatment whenever his order for certain goods cannot be filled exactly as per letter. When, therefore, a dealer begins to display a grouchy or irascible mental condition, I begin to suspect that things are not going well with him financially, and I take care to keep his credit file revised and up-to-date.

Eternal vigilance is the price of safety in the credit department. The credit man is, in a very real sense, the watch dog of the house. He may have a thousand names upon his books, yet he's expected to know the status of each. He is not permitted to plead ignorance—it is his business to know.

Credit Management of the Future

But while the standard of efficiency in credit management is constantly being raised, the credit man of today has, nevertheless, an easier path to travel than his predecessor of twenty-five or thirty years ago. Then credit management was largely guesswork, and the only training obtainable was received in the school of hard knocks. Now it is otherwise. The beginner in credit work finds his trail pretty well blazed for him, and there are ready at his hand facilities which save him from many of the errors and failures of the pioneer.

In the early days of Chicago, when her streets were paved with the original prairie mud, a waggish citizen is said to have placed a sign in the center of her principal street reading: "Look out; no bottom here." The student of credit now finds such signs everywhere. "Danger here." "Don't step there." "Thin ice here." Not only can he now take a course of study in credit as a preliminary to entering his vocation, but he has opportunities for studying business in its broadest aspects and thereby for placing credit management upon a sound and scientific basis.

What must be the result? It is safe to say that the credit man of the future will reach a high state of efficiency, evidenced in a reduction of bad-debt losses, conservation of business, a clarifying of conditions in the business world, and a higher moral tone in our commercial life.

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